NATIONAL ASSOCIATION OF
Manufacturers

Statement of the
National Association of Manufacturers

For the Hearing Record
of the Subcommittee on Select Revenue Measures
Committee on Ways and Means
U.S. House of Representatives

On
"Framework for Evaluating Certain Expiring Tax Provisions"

June 8, 2012

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The National Association of Manufacturers (NAM), the largest manufacturing association in the United States representing manufacturers in every industrial sector and in all 50 states, is pleased the subcommittee is holding hearings on temporary tax provisions that expired at the end of 2011 or will expire at the end of 2012. While the NAM supports a number of the more than 60 expiring or expired provisions, our statement focuses on three expired tax extenders widely used by manufacturers: the R&D tax credit, look-through rules for controlled foreign corporations (CFCs) and deferral for active business financing income.

The NAM is a strong advocate for reform of our current tax code to make it simpler, fairer and more competitive, and we welcome the current focus on tax reform. At the same time, until policymakers agree on a final reform plan, we believe that it is important to keep our current tax system in place. Piece-meal changes to long-standing rules will inject more uncertainty into business planning, making U.S companies even less competitive and threaten economic growth and U.S. jobs.

In contrast, renewing the tax extenders will provide a bridge of certainty and predictability for manufacturers. The tax extenders described below represent sound tax policy and have a history of strong, bipartisan, bicameral support. These provisions help manufacturers innovate and compete in a global marketplace and contribute to U.S economic growth and job creation. In light of the current uncertainty in the U.S. economy, including a persistently high unemployment rate, we strongly urge Congress to retroactively extend these and other business tax provisions as soon as possible.

R&D Tax Credit

The R&D tax credit spurs U.S.-based innovation and R&D jobs. By design, only U.S.-based R&D may qualify for the credit and 70 percent of the credit claims are for R&D wages. Since it was first enacted in 1981, the credit has incentivized companies to increase spending on research activities and hire more R&D workers.

In recent years, however, more and more countries have realized the importance of R&D and now provide more robust and often permanent R&D incentives. These new incentives are having an impact on R&D spending: the U.S. share of global R&D dropped to 31 percent in 2009 from 38 percent in 1999, according to the National Science Board.

The credit has been renewed 14 times since it was first enacted into law in 1981 and it is critical that Congress act as soon as possible to renew this important innovation incentive, retroactive to January 1, 2012. When the credit expired, the cost of performing R&D in the United States immediately rose and effectively increased taxes on companies that use the credit. Furthermore, this lapsed credit is exacerbating the trend of new R&D investment dollars flowing from the United States to countries offering more reliable and more generous research incentives. Thus, renewing the credit will eliminate the tax increase on companies that perform U.S. R&D and make the United States a more attractive place for both domestic and foreign investment in research activities.

Global Active Business Financing Income

The NAM also supports a retroactive extension of the provision that taxes active financial services income earned abroad by foreign subsidiaries of U.S. companies when the financial income is brought back to the United States. While this provision (also known as an exemption from subpart F for active financial income) typically is associated with financial service firms, it also is important to U.S. manufacturers with affiliates that provide financing for overseas buyers.

The ability to provide competitive financing for customers has a direct and positive impact on U.S. exports and manufacturing jobs. In contrast, since the exemption from subpart F expired at the end of 2012, U.S. financing arms, unlike their foreign counterparts, are subject to simultaneous foreign and U.S. taxes on their overseas income. This added tax burden makes U.S. manufacturers less competitive, threatening U.S. exports and jobs.

The "Look-through" Rules

Similarly, the NAM supports a retroactive extension of a provision that allows "look-through" treatment for payments of dividends, interest, rent and royalties between related CFCs. Without this provision, which expired at the end of 2011, American companies are subject to immediate U.S. taxation when they redeploy foreign earnings from active business operations in foreign markets. In contrast, our foreign competitors operating in the same markets generally do not pay this tax to their home countries. Thus, American companies are at a competitive disadvantage in serving foreign customers and consumers.

With 77 percent of the world's purchasing power outside of the United States, the ability of U.S. manufacturers to compete effectively in the global marketplace is critical to our country's future economic growth. The retroactive renewal of CFC look-through is vital to helping American companies compete globally.

Like deferral for active financing income, the look-through rules were designed to strengthen the ability of American companies to compete more effectively in the global marketplace. American companies that operate worldwide create and support U.S. jobs. An estimated 21 million people in the United States are employed by companies with overseas operations.

Conclusion

The expiration or pending expiration of these and other business "tax extenders" represents a tax increase for manufacturers and businesses of all sizes that use these incentives. Manufacturers already face a 20 percent cost disadvantage in comparison to companies operating outside the United State, and taxes represent a major factor in this cost differential. Increasing the tax burden on these companies makes it more difficult for them to compete and thrive in the global marketplace and imposes yet another road block to durable U.S. economic growth and job creation.

Manufacturers agree that comprehensive tax reform of the U.S. tax code is sorely needed, particularly in the current economic climate. As we move toward tax reform, we strongly urge you to revive and extend these important incentives that are part of the current system and avoid making an uncompetitive system even worse.

Supplemental Sheet

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